

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 IO-13 ADP-00 AGR-20 CEA-02 CIAE-00

COME-00 DODE-00 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06

NSAE-00 NSC-10 PA-03 RSC-01 AID-20 CIEP-02 SS-15

STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 OMB-01 AF-10

ARA-16 EA-11 NEA-10 OIC-04 RSR-01 /234 W

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R 301304Z JUL 73

FM USMISSION GENEVA

TO SECSTATE WASHDC 837

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LISBON

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY REYKJAVIK

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY VIENNA

USMISSION EC BRUSSELS UNN

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E.O. 11652: N/A

TAGS: ETRD, GATT, EC, SW, SZ, PO, IC, AU

SUBJ:EC-EFTA AGREEMENTS

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1. ON JULY 27, FIVE GATT WORKING PARTIES ON EC "FREE

TRADE" ARRANGEMENTS WITH SWITZERLAND, SWEDEN, AUSTRIA, PORTUGAL AND ICELAND CLEARED THEIR REPORTS TO GATT COUNCIL ON RESULTS OF EXAMINATIONS. REPORTS WILL NOT BE CONSIDERED BY COUNCIL UNTIL FALL, PROBABLY OCTOBER. CONCLUDING SECTION OF EACH REPORT, CAPTIONED "GENERAL CONSIDERATIONS", IS IDENTICAL IN EACH CASE EXCEPT FOR FEW SENTENCES AS INDICATED BELOW. FULL TEXT OF GENERAL CONSIDERATIONS IS AS FOLLOWS:

QUOTE

GENERAL CONSIDERATIONS

(1) SOME MEMBERS OF THE WORKING PARTY WERE OF THE OPINION THAT THE AGREEMENTS CONSTITUTED A PREFERENTIAL ARRANGEMENT RATHER THAN A FREE-TRADE AREA. THIS DEROGATION FROM THE MOST-FAVOURLED-NATION PRINCIPLE WAS CONTRARY TO THE SPIRIT AS WELL AS THE LETTER OF THE GENERAL AGREEMENT. WHEREAS A FREE-TRADE AREA WOULD BE REQUIRED BY ARTICLE XXIV: 8(B) TO COVER SUBSTANTIALLY ALL THE TRADE BETWEEN THE CONSTITUENT TERRITORIES IN PRODUCTS ORIGINATING IN SUCH TERRITORIES, THE ARRANGEMENT UNDER CONSIDERATION VIRTUALLY EXCLUDED TRADE IN UNPROCESSED AGRICULTURAL PRODUCTS. (IN REPORT ON EC-PORTUGAL AND EC-ICELAND ONLY, ADD: THE PERCENTAGE OF IMPORTS BY THE COMMUNITIES FROM (PORTUGAL/ ICELAND) FELL FAR SHORT OF A REASONABLE INTERPRETATION OF "SUBSTANTIALLY ALL.") MOREOVER, THE COMPLEX AND RESTRICTIVE RULES OF ORIGIN NOT ONLY HINDERED INTER-AREA TRADE BUT ALSO RAISED NEW BARRIERS TO IMPORTS FROM THIRD PARTIES AND THUS CONFLICTED WITH THE REQUIREMENT OF ARTICLE XXIV CT(B) THAT REGULATIONS OF COMMERCE APPLICABLE TO THE TRADE OF THIRD PARTIES NOT BE MORE RESTRICTIVE THAN THE CORRESPONDING REGULATIONS OF COMMERCE EXISTING IN THE CONSTITUENT TERRITORIES PRIOR TO THE FORMATION OF A FREE-TRADE AREA.

(2) SOME MEMBERS HELD THE VIEW THAT TO THE EXTENT THE RULES OF ORIGIN INCREASED RESTRICTIONS AGAINST THIRD PARTIES ON PRODUCTS SUBJECT TO TARIFF CONCESSIONS, THESE CONCESSIONS WOULD BE NULLIFIED OR IMPAIRED. SOME OF THESE LIMITED OFFICIAL USE

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MEMBERS POINTED OUT THAT IN ABSENCE OF AN EXAMINATION OF THE DIFFERENCE IN TARIFFS OF THE PARTIES TO THIS AGREEMENT THERE WAS NO ANALYSIS OF WHETHER THESE RULES WERE JUSTIFIABLE IN RELATION TO THE TRADE DEFLECTION WHICH MIGHT OCCUR. IN ADDITION, SOME MEMBERS CONSIDERED THE PLAN AND SCHEDULE FOR THE PROGRESSIVE REDUCTION OF INTERNAL TARIFFS SEEMED TO INDICATE THAT THESE WERE INTENDED AS INTERIM AGREEMENTS LEADING TO THE FORMATION OF A FREE-TRADE AREA

RATHER THAN THE FFRE-TRADE ARRANGEMENT ITSELF.

(3) OTHERS OF THE GROUP POINTED OUT THAT THE ADVERSE IMPACT ON THIRD COUNTRIES MIGHT BE REDUCED BY THE PARTICIPATION OF THE PARTIES IN THE FORTHCOMING MULTILATERAL TRADE NEGOTIATIONS WITH A VIEW TO INSURING LIBERALIZATION OF TRADE ON THE BASIS OF MFN.

(4) OTHER MEMBERS OF THE WORKING PARTY WERE OF THE OPINION THAT THE MOVEMENT TOWARDS FURTHER ECONOMIC INTEGRATION IN WESTERN EUROPE WOULD LEAD TO NEW DISTORTIONS IN INTERNATIONAL TRADE TO THE PARTICULAR DETRIMENT OF THE EXPORT INTERESTS OF DEVELOPING COUNTRIES. IN PARTICULAR, THEY FORESAW THE DANGER OF EROSION OF THE BENEFITS WHICH DEVELOPING COUNTRIES HAD OBTAINED UNDER THE GSP. THESE MEMBERS FELT THAT IN THE CONTEXT OF THE MULTILATERAL TRADE NEGOTIATIONS THE PARTIES TO THE AGREEMENTS SHOULD FIND WAYS AND MEANS TO ENSURE THAT DEVELOPING COUNTRIES WERE AT LEAST PLACED ON AN EQUAL FOOTING WITH THE PARTIES TO THE AGREEMENTS.

(5) THE PARTIES TO THE AGREEMENTS, TOGETHER WITH SOME OTHER MEMBERS OF THE WORKING PARTY, EXPRESSED THEIR CONVICTION THAT THESE AGREEMENTS EFFECTIVELY CREATED A FREE TRADE AREA AND WERE IN FULL CONFORMITY WITH ARTICLE XXIV OF THE GATT. THEY COULD NOT THEREFORE, ON ANY VIEW, BE CONSIDERED AS PREFERENTIAL ARRANGEMENTS. FURTHERMORE THEY WERE IN NO WAY INTERIM AGREEMENTS AND INCLUDED

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INFO OCT-01 ADP-00 AF-10 ARA-16 EA-11 EUR-25 NEA-10 RSC-01

IO-13 OIC-04 AGR-20 CEA-02 CIAE-00 COME-00 DODE-00

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ALL THE ELEMENTS NECESSARY FOR THE DEFINITIVE ESTABLISHMENT OF THE FREE TRADE AREA. THE AGREEMENTS COVERED SUBSTANTIALLY ALL THE TRADE BETWEEN THE PARTIES AND THE EXCLUSION, AS APPROPRIATE, OF AGRICULTURAL PRODUCTS, WAS LIMITED OFFICIAL USE

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OF RELATIVELY MINOR PRACTICAL SIGNIFICANCE. WITH RESPECT TO THE TRADE COVERAGE, THE PARTIES TO THE AGREEMENTS POINTED OUT THAT THE TRADE FLOWS IN BOTH DIRECTIONS MUST BE TAKEN INTO ACCOUNT AND THAT AN IMPORTANT PART OF (BLANK'S) EXPORTS TO THE COMMUNITIES WAS FREE OF DUTY OR ENJOYING SUSPENDED DUTIES BEFORE THE CONCLUSION OF THE AGREEMENTS. TAKING THIS INTO ACCOUNT THE TRADE COVERAGE WAS CONSIDERED FULLY SATISFACTORY. RULES OF ORIGIN WERE AN INDISPENSABLE ELEMENT FOR THE OPERATION OF A FREE TRADE AREA AND THE AGREEMENTS NECESSARILY CONTAINED SUCH RULES OF ORIGIN TO PREVENT UNDESIRABLE DEFLECTION OF TRADE, AND THUS ENSURE THE CORRECT FUNCTIONING OF THE FREE TRADE AREA. THESE RULES OF ORIGIN WERE INTRODUCED ESSENTIALLY TO PREVENT SUCH DEFLECTION AND HAD BEEN DESIGNED AS OBJECTIVELY AND SIMPLY AS POSSIBLE. THEY IN NO WAY INCREASED RESTRICTIONS ON TRADE WITH THIRD COUNTRIES. THE PARTIES TO THE AGREEMENTS DECLARED THAT AFTER SOME EXPERIENCE OF THE WORKING OF THE RULES OF ORIGIN THEY WOULD CONSIDER ANY REVISIONS OF THEM IN THE LIGHT OF EVIDENCE OF DIFFICULTIES ENCOUNTERED.

(6) THE PARTIES TO THE AGREEMENTS WERE CONVINCED THAT THE INCREASE IN ECONOMIC ACTIVITY RESULTING FROM THE AGREEMENTS WOULD RAISE DEMAND FOR THIRD COUNTRY PRODUCTS IN GENERAL. THE EFFECTS OF THESE AGREEMENTS WOULD THUS ALSO BENEFIT THE DEVELOPING COUNTRIES BY STIMULATING DEMAND FOR THEIR PRODUCTS. THE PARTIES TO THE AGREEMENTS SHALL INSURE THAT THE ADVANTAGES EXPECTED BY THE DEVELOPING COUNTRIES IN THE FRAMEWORK OF THE GSP SHOULD BE EFFECTIVELY ATTAINED IN THEIR TRADE RELATIONS WITH DEVELOPING COUNTRIES. (NOTE: TEXT FOR ICELAND AND PORTUGAL WILL READ: "THE EUROPEAN COMMUNITIES..." INSTEAD OF "THE PARTIES TO THE AGREEMENTS...")

(7) THE WORKING GROUP COULD NOT REACH ANY UNANIMOUS CONCLUSIONS AS TO THE COMPATIBILITY OF THE AGREEMENTS WITH THE PROVISIONS OF THE GENERAL AGREEMENT. THUS IT FELT THAT IT SHOULD LIMIT ITSELF TO REPORT THE VIEWS EXPRESSED TO THE COMPETENT BODIES OF THE CONTRACTING PARTIES. UNQUOTE

2. SECOND SENCECE OF NUMBERED PARA 2 ABOVE REFLECTS POINT LIMITED OFFICIAL USE

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MADE BY US DELEGATION JULY 26-27 (COVERED MORE FULLY IN EARLIER SECTION OF REPORTS) CONCERNING NEED TO ANALYZE TARIFF DIFFERENTIALS BETWEEN PARTIES TO ASSESS WHETHER PRESENT RULES OF ORIGIN WERE JUSTIFIABLE AND THAT US MAY WISH TO REVERT TO RULES OF ORIGIN PROBLEM WHEN WP REPORTS ARE CONSIDERED BY GATT COUNCIL.
BASSIN

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